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Dear Rob

Half-hourly settlement (HHS): the way forward

Many thanks for the opportunity to comment on your plans for developing the mechanisms and framework to move the industry towards HHS. We have reviewed your proposals and support the goal to identify and remove the barriers facing the industry to allow domestic and smaller non-domestic electricity customers to settle on a half-hourly (HH) basis. We agree that it is sensible to review the impact of the move to mandatory settlement by testing the framework using elective settlement in the first instance and then consider the approach for moving to mandatory HHS in the longer-term.

With regard to barriers to elective HH settlement, we have a number of comments we would like to highlight for consideration. We support the view of the Settlement Reform Advisory Group (SRAG) that the work covering innovation and technology change such as introduction of demand side response, storage, local energy schemes and virtual balancing is picked up as part of this project to reform the electricity settlement arrangements in Great Britain. It is unclear at this stage what impact this will have on HH settlements, both elective and mandatory. Our view is that it may be too early to contemplate elective HH settlements on such initiatives until an understanding of the processes and accountabilities on each party is understood but an early view on this would be helpful.

Whilst Ofgem's initial work on settlement reform is focused on improving the elective HHS arrangements, the statement that the work will only require changes to central systems "and to the systems of any suppliers or supplier agents who choose to settle customers on a half-hourly basis" fails to recognise that there are two areas of change identified by SRAG that impact Distributors and they would need to be system and process ready irrespective of the supplier and their agents deciding to elect to settle on a HH basis. The first is associated with Data Communication Company enabled meters whereby there is a need for the supplier to communicate the consumption of the meter via a D0010 data flow, and the second is the need for all parties to change systems to support an increase in precision to three decimal places associated with an HH advance resulting in a move to the nearest Watt hour. This impacts a number of data flows which Suppliers, Distributors and HH Data Collectors (HHDCs) would have to process not only for elective HH customers but existing HH customers. We are supportive of such changes but recognise that the amount of industry change identified in your letter may impact the implementation of the latter based on feedback from HHDC agents.

We also note that the Competition and Markets Authority (CMA) included several findings in its investigation into the Energy Market where it invited participants to provide comments on its proposals. We note the delay in the CMA timeline to delay its findings until March 2016 associated with this and as such we recommend that Ofgem should use this feedback and build these into its HHS planning to ensure that any issues are addressed and any feedback can be fully utilised. This may delay your timeline to deliver given your target to complete all changes to industry rules by the end of 2016 but we suggest this would be in the best interest of all parties.

Another area of concern is the lack of flexibility available to suppliers to introduce innovative tariffs if they are limited to four core tariffs. The use of elective HHS should be seen as an opportunity to test the market but we suspect this constraint on the number of tariffs may restrict the use of HHS in profile class 1-4 markets.

In addition to this, there is the issue of consent when there is a change of tenancy. In some instances suppliers are unaware of when a change of tenancy occurs and the impact this will have associated with customer consent for a supplier to receive HH advances that are for less than a day (in line with Supplier Licence Obligations). Suppliers may therefore be resistant in promoting elective HHS.

The above two instances may result in a similar outcome to the introduction of elective HH Settlement Class E when it was introduced. Prior to mandating HH settlement to profile class 5-8, the use of such a Measurement Class was very limited in its use.

We agree that the move to mandating HHS will require changes to a number of industry rules and may result in significant changes to the way data is processed and by whom and as such agree that this will be best achieved via a Significant Code Review (SCR). We recognise that there may be some risk of misalignment or conflicting decisions being made due to there being two SCR processes running concurrently. It is important that this is recognised in the planning for the review and that any cross-SCR issues are identified and resolved.

If you have any questions, please do not hesitate to contact me.

Yours sincerely

John Lawton
Regulation Manager